



TONI PRECKWINKLE

PRESIDENT

**Cook County Board
of Commissioners**

EARLEAN COLLINS

1st District

ROBERT STEELE

2nd District

JERRY BUTLER

3rd District

STANLEY MOORE

4th District

DEBORAH SIMS

5th District

JOAN PATRICIA MURPHY

6th District

JESUS G. GARCIA

7th District

EDWIN REYES

8th District

PETER N. SILVESTRI

9th District

BRIDGET GAINER

10th District

JOHN P. DALEY

11th District

JOHN A. FRITCHEY

12th District

LARRY SUFFREDIN

13th District

GREGG GOSLIN

14th District

TIMOTHY O. SCHNEIDER

15th District

JEFFREY R. TOBOLSKI

16th District

ELIZABETH ANN DOODY GORMAN

17th District

Office of the County Auditor

Shelly A. Banks, C.P.A.

Cook County Auditor

69 West Washington, Suite 2200 • Chicago, Illinois 60602 • (312) 603-1500

May 6, 2014

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

In accordance with Cook County's contract with 69 West Washington Management Company, L.L.C., we have reviewed the Manager's operations of the George W. Dunne Cook County Office Building for the period of December 1, 2012 through November 30, 2013. We conducted our audit in accordance with the [Cook County Auditor Ordinance](#).

Our objectives for this examination were designed to evaluate the 69 West Washington Management Company, L.L.C. compliance with certain terms of the Management Agreement. The scope of our work consisted of gathering, reviewing and testing applicable and adequate supporting documentation to reach a conclusion on our objectives.

Please refer to the following audit report for the results of the audit. The audit report contains 3 audit findings. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the cooperation of the 69 West Washington Management Company, L.L.C. staff extended to Ms. Julie Stack during the course of our examination. We have discussed our findings with the 69 West Washington Management Company, L.L.C. staff and would be pleased to discuss our recommendations in greater detail in order to assist with their implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Anna Ashcraft, Director Real Estate Management Division
John Cooke, Interim Director Facilities Management/Director Capital Planning & Policy
Johnnie Miles, General Manager 69 West Washington Management Company, L.L.C



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

69 West Washington Management Company, L.L.C.

Internal Audit Report

Report Date: May 6, 2014

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Julie Stack, Field Auditor V
William Carroll, Audit Supervisor

EXECUTIVE SUMMARY

We have examined the accounting records of the 69 West Washington Management Company, L.L.C. for the period ended November 30, 2013.

The County of Cook (“Owner”) purchased the 69 West Washington Street building (“Property”) on December 30, 1996. The Cook County Board of Commissioners approved a contract with the 69 West Washington Management Company, L.L.C. (“Manager”) to serve as the Property’s Manager beginning on August 1, 1997. Since that time the contract (“Management Agreement”) has been extended six times by amendment. The last amendment extended the contract to July 31, 2014. The Manager is an entity formed by U.S. Equities and East Lake Management Company.

The Manager is responsible for staffing, supervising, and overseeing all administration and operation of the Property. Duties include managing and coordinating relations with Property occupants, including administration of all leases and occupancy agreements, communication with occupants, rent collections, and provision of responsive occupant services.

The 69 West Washington Management Company, L.L.C. audit was designed to assess the Manager’s compliance with certain terms of the Management Agreement. This was accomplished by gathering, reviewing and testing relevant and sufficient supporting documentation to reach a conclusion on each of our audit objectives.

During our audit of the 69 West Washington Management Company, L.L.C., we tested that the following items in the contract were in compliance:

- County’s MBE/WBE Ordinance
- Payment of management fees and construction administration fees
- Lease and lease commissions were approved by the County Board and tenants were billed according to the terms of the lease; work-orders were billed appropriately and follow-up is taken on delinquencies.

As a result of our testing we noted the following findings:

- The procurement of construction services does not promote maximum vendor participation to achieve the lowest cost. Although the Manager did solicit written bids from at least three (3) competent contractors, our testing revealed that the same companies were being solicited to bid for the construction projects. ([Finding #1](#))
- The signed service contracts we tested did not contain a paragraph regarding Tax and Fee Delinquency, Cook County Ordinance Chapter 10 - Section 10-6.1, as required per Article XVI of the Management Agreement. ([Finding #2](#))
- Expenses incurred on a Cook County Warehouse, which is also managed by the 69 West Washington Management Company, L.L.C., were erroneously paid out of the Operating Account maintained to pay the expenses related to the 69 West Washington Building. ([Finding #3](#))

The findings noted were presented and discussed with Management of the 69 West Washington Management Company, L.L.C. Please refer to the [Findings](#) section of this report for additional details on the findings, recommendations, management responses, corrective action plans and estimated completion dates.

BACKGROUND

The County of Cook (“Owner”) purchased the 69 West Washington Street building (“Property”) on December 30, 1996. On August 5, 1997, the Cook County Board of Commissioners approved a contract with the 69 West Washington Management Company, L.L.C. (“Manager”) to serve as the Property’s Manager beginning on August 1, 1997. Since that time the contract (“Management Agreement”) has been extended six times by amendment. The last amendment extended the contract to July 31, 2014. The Manager is an entity formed by U.S. Equities and East Lake Management Company and is managed by an Oversight Board made up of five members from both entities.

The Manager is responsible for staffing, supervising, and overseeing all administration and operation of the Property. Duties include managing and coordinating relations with Property occupants, including administration of all leases and occupancy agreements, communication with occupants, rent collections, and provision of responsive occupant services.

The Manager is responsible for operating the Property within the approved Operating Budget and Construction Budget. The Operating Budget details all expenses necessary and desirable for the operation and management of the Property; including the Manager's direct property expenses and a management fee, and all other costs which are reimbursed by the Owner. The Construction Budget consists of estimated costs for move and relocation, renovation and tenant improvements, and the Construction Administration Fee.

The Owner pays the Manager a management fee which covers the Manager's costs for all off-site corporate support positions, all accounting related support activities, all overhead and profit for the duration of the assignment, as well as insurance coverage as required by the contract. As of the 5th Amendment effective August 1, 2012, the Management Fee was adjusted to \$180,000.00 for the period, or \$15,000.00 per month, which is currently still in effect.

The Manager acts as leasing agent for the Owner for space to be leased in the Property, and if so directed by the Owner, for subleasing any premises currently leased by the Owner. This service requires the Owner to pay commissions to the Manager. To be effective, all leases and leasing commissions require approval by the Cook County Board of Commissioners.

The Manager provides construction administration services for both the Owner and the Tenant’s for improvements for any leased space. Construction administration services for projects under \$10,000.00 are covered by the management fee. The Manager provides construction administration services for larger projects for a fee of 3.00% of construction costs for projects in excess of \$10,000.00. For purposes of the fee, construction costs represent the total cost to the Owner of all elements of the project including labor and materials, overhead and profit, and compensation for the Construction Manager and Construction Manager's consultants.

The Owner is represented by the Director of the Department of Facilities Management for the operation and management of the Property and the Director of Real Estate Management for leasing issues. The Owner is responsible for providing written approvals to the Manager as specified in the contract. The Owner is required to reimburse the Manager for all expenses incurred in accordance with implementing the Operating and Construction Budgets. The funding for operating expenses is required to be provided by the Owner in advance.

AUDIT SCOPE AND OBJECTIVES

Our audit was designed to evaluate the Manager's compliance with certain terms of the contract between Cook County and the 69 West Washington Management Company, L.L.C. in order to reach a conclusion on our audit objectives. Our objectives were to analyze and evaluate:

- Manager's compliance with the procurement requirement to solicit written bids from at least three (3) competent contractors or suppliers, and that the bids received indicated the proposed cost for the project and were approved by the County.
- Management Fees are authorized and paid in accordance with the management agreement and the total compensation paid to the Manager did not exceed \$340,000.00 per year as per the terms of 5th Amendment of the Management Agreement.
- Leases and lease commissions are approved by the County Board and the tenants are billed according to the terms of their lease and that all work orders performed for tenants are billed appropriately and follow-up is taken on delinquencies.
- Manager's compliance with the County's MBE/WBE Ordinance.
- Manager's compliance with Section 2.10, Supplies and Inventory, of the Management agreement. Section 2.10 of the agreement requires the Manager to conduct a physical inventory of all supplies and personal property as of the end of each calendar year.

AUDIT RESULTS

Based on our analysis and evaluation of the internal controls and the operations of the 69 West Washington Management Company, L.L.C., we have noted three findings as detailed in the [Findings Section](#). In regards to the other audit objectives, our review determined the following conclusions regarding compliance:

- Management Fees were authorized and paid in accordance with the Management Agreement, and the total compensation to the Manager did not exceed \$340,000.00 per year as per the terms of 5th Amendment of the Management Agreement.
- Lease and lease commissions were approved by the County Board and tenants were billed according to the terms of the lease and work orders were billed appropriately with proper follow-up on any delinquencies.
- Manager complied with the County's MBE/WBE Ordinance.

In addition to the findings below, we noted one observation. A current inventory listing of the property at 69 West Washington does not exist. The most recent inventory list was from 1997. Without a complete inventory list, items purchased with County funds could be lost or stolen and could go undetected, especially when items are being moved between different offices. The Management Agreement Section 2.10 Supplies and Inventory states "Manager shall purchase in a competitive manner all supplies, materials, fixtures, appliances, uniforms, tools, equipment and other items of personal property which in the normal course of business are necessary and proper to maintain and operate the Property and complete Tenant Improvements. Manager shall use commercially reasonable efforts to obtain for Owner the benefit of discounts and volume purchasing economies available to Manager and will credit the same to Owner. All purchases of personal property shall provide that title to such items shall be in the sole name of Owner. Manager shall conduct a physical inventory of all supplies and personal property as of the end of each calendar year and submit a tabulation and listing to Owner within 60 days after the end of each calendar year." We interpreted this section to indicate that the Manager is required to maintain the inventory listing of all 69 West Washington personal property.

County management has indicated that the intent of the Management Agreement Section 2.10 Supplies and Inventory is that 69 West Washington Management Company maintain an inventory of the supplies, material, etc. that they purchase at the County's expense for the operation of the building and not to inventory the County's personal property (such as furniture, etc., in County office spaces).

FINDINGS

Finding #1

The procurement of construction services does not promote maximum vendor participation to achieve the lowest cost. We tested 10% of the construction contracts to verify that three (3) bids were solicited. During our testing, we found that three bids are solicited, but the same companies are solicited for each project. We noted that the same two (2) bidders were solicited in three (3) out of the four (4) projects we tested. In addition, our testing revealed that in two (2) out of the four (4) projects tested, only two (2) of the three (3) bidders that were solicited actually submitted bids.

Recommendation

We recommend that the Manager follow the County's procurement process when soliciting bids for future construction projects, which will ensure that the process is transparent and open to all potential bidders.

Management Response

A minimum of three (3) bids are solicited for projects over \$25,000.00, per our Management Agreement. In the bid solicitation in the Chicago Tribune, included will be the MBE/WBE requirements and emphasize that all contractors must be qualified, unionized, familiar with working in a high rise commercial environment, and must have a proven track record of expertise and timeliness.

Our next opportunity to go to bid is for the construction of a conference room by the end of May.

Estimated Completion Date

5/31/2014

Finding #2

During our testing of the Service Contracts, we found that the signed contracts did not contain a paragraph regarding Tax and Fee Delinquency, Cook County Ordinance Chapter 10, Section 10-6.1, as required per Article XVI of the Management Agreement.

Recommendation

We recommend that the Tax and Fee Delinquency paragraph be included in all contracts as required per Article XVI of the Management Agreement. In the future, all contracts should be reviewed prior to execution to verify that all applicable language per County Ordinance is included.

Management Response

We agree. We are preparing Amendments which include the Tax and Fee Delinquency language for all current contracts. Our Service Agreement template will be updated to contain this language.

On April 29th, 2014, fourteen amendments were sent to our service contractors. To date, seven have been returned.

Estimated Completion Date

4/29/2014

Finding #3

Disbursements were made from the 69 West Operating Account for expenses for a Cook County Warehouse that the 69 West Washington Management Company, L.L.C. is also managing. It is in violation of the Management Agreement Section 2.2(d) for the Owner to reimburse Manager for any expenses not included in the Budget or Construction Budget (except for Emergencies). When the County purchased the Warehouse a bank account was not set up to pay for expenses incurred by the property. The disbursements started in February 2013 with approximately \$39,000.00 made from the account for which 69 West was reimbursed in October 2013. A separate account has now been set up for the Warehouse.

Recommendation

We recommend the Manager only pay expenses out of the Operating Account that relate to the 69 West Washington building as per the Management Agreement.

Management Response

We agree. This was an extraordinary circumstance. We received verbal confirmation from the Owner, followed by written confirmation per email from Anna Ashcraft, dated 12/17/2013, authorization was as follows:

"This will confirm that upon purchase by the County of property located at 1330 South 54th Avenue, in Cicero, Illinois, I authorized you to temporarily pay for expenses such as snow removal, utilities, and other critical services for the building out of the operating funds for the George W. Dunne Building, to be reimbursed upon full execution of a temporary management agreement. Funds were being held to fund these expenses pursuant to this temporary management agreement. Due to unanticipated delays in the execution process, the contract remained unsigned for an extended period. Once I understood from the Chief Procurement Officer that approval was forthcoming, I provided the designated funds to 69 W. Washington to pay operating expenses and reimburse the George W. Dunne accounts."

Upon receipt of funds, full reimbursements from warehouse funds were made to 69 W. Washington Management Company, LLC on 10/7/2013.

Estimated Completion Date

10/7/2013